

**REPORT OF THE AUDIT OF THE
OLDHAM COUNTY
CLERK**

**For The Year Ended
December 31, 2008**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817
TELEPHONE (502) 564-5841
FACSIMILE (502) 564-2912**

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE OLDHAM COUNTY CLERK

**For The Year Ended
December 31, 2008**

The Auditor of Public Accounts has completed the Oldham County Clerk's audit for the year ended December 31, 2008. Based upon the audit work performed, the financial statement presents fairly in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees decreased by \$81,479 from the prior year, resulting in excess fees of \$204,609 as of December 31, 2008. Revenues decreased by \$700,774 from the prior year and expenditures decreased by \$619,295.

Lease Obligations:

The County Clerk's office was committed to the following lease agreements with Software Management as of December 31, 2008:

Item Purchased	Monthly Payment	Term Of Agreement	Ending Date	Principal Balance 12/31/2008
Software	\$ 3,600	60 months	08/31/13	\$ 201,600
Hardware	\$ 2,414	60 months	08/31/13	\$ 135,184

Report Comments:

- The Clerk Overstated Receipts And Disbursements By Approximately Twelve Million Dollars On The Financial Statement
- The Clerk Overspent Her Approved Budget For Deputies Salaries, including FICA and Retirement By \$23,460

Deposits:

The County Clerk's deposits as of April 9, 2008, were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$41,009

The County Clerk's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the County Clerk's deposits in accordance with the security agreement.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Duane Murner, Oldham County Judge/Executive
The Honorable Julie K. Barr, Oldham County Clerk
Members of the Oldham County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Clerk of Oldham County, Kentucky, for the year ended December 31, 2008. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Clerk for the year ended December 31, 2008, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated August 25, 2009 on our consideration of the Oldham County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Duane Murner, Oldham County Judge/Executive
The Honorable Julie K. Barr, Oldham County Clerk
Members of the Oldham County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Clerk Overstated Receipts And Disbursements By Approximately Twelve Million Dollars On The Financial Statement
- The Clerk Overspent Her Approved Budget For Deputies Salaries, including FICA and Retirement By \$23,460

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Oldham County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a stylized, flowing script.

Crit Luallen
Auditor of Public Accounts

August 25, 2009

OLDHAM COUNTY
JULIE K. BARR, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2008

Revenues

State Fees For Services	\$	17,724
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Fiscal Court		9,151
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Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers	\$	1,659,838
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Usage Tax		5,096,131
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Tangible Personal Property Tax		6,223,994
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Notary Fees		10,262
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Lien Release Fees		27,648
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Other-

Marriage Licenses		8,998
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Miscellaneous Licenses		35
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Miscellaneous Income		22,979
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Housing Authority Fund		86,868
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Deed Transfer Tax		355,946
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Delinquent Tax	1,316,662	14,809,361
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Fees Collected for Services:

Recordings-

Deeds		25,299
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Powers of Attorney		4,883
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Real Estate Mortgages		137,387
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Bail Bonds		66
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Chattel Mortgages and Financing Statements		100,356
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Wills & Estates		736
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Releases		46,006
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Liens		13,338
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Fixture Filings		758
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Leases		243
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All Other Recordings		15,712
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Charges for Other Services-

Candidate Filing Fees		1,260
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Postage		16,106
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Copywork	7,106	369,256
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The accompanying notes are an integral part of this financial statement.

OLDHAM COUNTY
 JULIE K. BARR, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2008
 (Continued)

Revenues (Continued)

Other:

Refunds & Overpayments	\$	4,477	
Miscellaneous Income		<u>4,058</u>	\$ 8,535

Interest Earned			<u>7,376</u>
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Total Revenues			15,221,403
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Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$	1,129,485
Usage Tax		4,944,107
Tangible Personal Property Tax		2,041,843

Licenses, Taxes, and Fees-

Delinquent Tax		829,907
Legal Process Tax		45,925
Housing Authority Fund		<u>86,868</u>

9,078,135

Payments to Fiscal Court:

Tangible Personal Property Tax		537,118
Delinquent Tax		20,304
Deed Transfer Tax		<u>338,148</u>

895,570

Payments to Other Districts:

Tangible Personal Property Tax		3,396,093
Delinquent Tax		<u>160,793</u>

3,556,886

Payments to Sheriff

2,407

Payments to County Attorney

195,721

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries		685,745
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Employee Benefits-

Employer's Share Social Security		52,223
Employer's Share Retirement		94,742
Employer's Paid Health Insurance		87,650

The accompanying notes are an integral part of this financial statement.

OLDHAM COUNTY
 JULIE K. BARR, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2008
 (Continued)

Expenditures (Continued)

Operating Expenditures and Capital Outlay: (Continued)

Contracted Services-			
Microfilming & Indexing	\$	139,023	
Materials and Supplies-			
Office Supplies		33,179	
Other Charges-			
Insurance & Bonds		917	
Dues		4,309	
Miscellaneous Bank Transactions		6,130	
Miscellaneous Clerk Expense		5,504	
Bank Charges		10,194	
Refunds		42,308	
Postage		22,882	\$ 1,184,806
Capital Outlay-			
New Equipment/Maintenance		5,614	
Office Equipment & Maint. Agreements		8,686	14,300
Total Expenditures			<u>\$ 14,927,825</u>
Net Revenues			293,578
Less: Statutory Maximum			82,832
Excess Fees			210,746
Less: Expense Allowance		3,600	
Training Incentive Benefit		2,537	6,137
Excess Fees Due County for 2008			204,609
Payment to Fiscal Court - February 17, 2009			<u>201,942</u>
Balance Due Fiscal Court at Completion of Audit			<u><u>\$ 2,667</u></u>

The accompanying notes are an integral part of this financial statement.

OLDHAM COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2008

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2008 services
- Reimbursements for 2008 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2008

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

OLDHAM COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2008
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.17 percent for the first six months and 13.50 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Oldham County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County Clerk's deposits may not be returned. The Oldham County Clerk does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2008, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of April 9, 2008, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the County Clerk's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$41,009

OLDHAM COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2008
(Continued)

Note 4. Leases

The Oldham County Clerk's office was committed to the following lease agreements with Software Management as of December 31, 2008:

Item Purchased	Monthly Payment	Term Of Agreement	Ending Date	Principal Balance 12/31/2008
Software	\$ 3,600	60 months	08/31/13	\$ 201,600
Hardware	\$ 2,414	60 months	08/31/13	\$ 135,184

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Duane Murner, Oldham County Judge/Executive
The Honorable Julie K. Barr, Oldham County Clerk
Members of the Oldham County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Oldham County Clerk for the year ended December 31, 2008, and have issued our report thereon dated August 25, 2009. The County Clerk's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Oldham County Clerk's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the County Clerk's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County Clerk's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comments and recommendations to be a significant deficiency in internal control over financial reporting.

- The Clerk Overstated Receipts And Disbursements By Approximately Twelve Million Dollars On The Financial Statement



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Oldham County Clerk's financial statement for the year ended December 31, 2008, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Clerk Overspent Her Approved Budget For Deputies Salaries, including FICA and Retirement By \$23,460

This report is intended solely for the information and use of management, the Oldham County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

August 25, 2009

COMMENTS AND RECOMMENDATIONS

OLDHAM COUNTY
JULIE K. BARR, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2008

INTERNAL CONTROL - MATERIAL WEAKNESS:

The Clerk Overstated Receipts And Disbursements By Approximately Twelve Million Dollars On The Financial Statement

During audit procedures, we noted that transfers between two bank accounts have been included on the financial statements as receipts and disbursements. Additionally, the money being swept nightly to and from the Clerk's fee account is also included as receipts and disbursements. This caused the Clerk's financial statement to be overstated on both receipts and disbursements by approximately 12 million dollars.

The transfers between the two bank accounts are the result of payroll, payments to IRS for withholdings, deed transfer tax, delinquent tax payments to districts, and ad valorem payments to districts transferred from the fee account into a clearing account. The bookkeeper began using Quickbooks during 2007 to direct deposit payroll to employees and to direct deposit payments to taxing districts and other entities. They implemented this in part due to the fact that some taxing districts delayed cashing checks until well into the following year. This system ensures that all payments for payroll and taxing districts are paid immediately. This reduces the issue of outstanding checks and increases internal controls in this area because fewer checks are cut.

The problem is caused when the transfers from the fee account into the "payroll clearing" account are posted as receipts into that account, then as disbursements from both the fee account and the clearing account. This caused the overstatement of both total receipts and total disbursements on the Clerk's 4th quarter financial statement. Additionally, money swept to and from the Clerk's fee account nightly is also included in the receipts and disbursements ledgers.

The Clerk and her bookkeeper did not realize that this was happening and therefore did not adjust the financial statement to more accurately reflect true receipts and disbursements of the office. They did recognize that this was a problem when brought to their attention by auditors. Because material audit adjustments to the financial statements were necessary to accurately reflect receipts and disbursements, this is considered a material weakness in internal controls.

We recommend that the Clerk's office work with their software company to ensure that transfers between bank accounts are not included in total receipts and disbursements and to produce a 4th quarter report that accurately reflects receipts and disbursements of the clerk's office.

County Clerk's Response:

Part 1 – Overbooking and use of an imprest account: We were operating under the misdirection that the auditors wanted to see all of the bank deposits and all of the bank disbursements for all of the accounts. We think it sound, prudent, and efficient management to use imprest accounts for electronic fund transfers as opposed to let those transfers take place in our regular account. It is reassuring that the auditor agreed with our assessments. To the extent this use of an imprest account gave rise to a so called overbooking of receipts and disbursements is an unplanned by-product of our desire to show the auditors all of the receipts and disbursements in all of the accounts. We wish to state emphatically that there was no intent to overstate any element of our financials. We were "thinking outside of the box" in an effort to reduce our exposure to external

OLDHAM COUNTY
JULIE K. BARR, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2008
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESS: (Continued)

The Clerk Overstated Receipts And Disbursements By Approximately Twelve Million Dollars On The Financial Statement (Continued)

County Clerk's Response: (Continued)

Part 1 (Continued) – computer fraud and create an environment whereby all mandatory distributions and paychecks are correctly booked in the period to which they apply. We acknowledge that the procedures we have used for years and the software design structures were not able to accommodate our newly enhanced operating processes. We have determined that by modifying our internal system and procedures, we can achieve the superior management results that an imprest account enables, while eliminating the apparent overbooking of receipts and disbursements.

Part 2 – Nightly sweeps of excess funds. We believe the nightly sweep of excess funds to create interest income was a prudent management technique to maximize our excess funds at year end; that is, as long as we could realize a 3% to 4% APR. Again, we wish to state that there was no intent to overstate any element of our financials. When the interest rate dropped to substantially zero, it was no longer worth the effort. We acknowledge that during this period there may have been a better way to book the activity to avoid the appearance of overbooking. However, the way we did book the activity did reflect the money actually left the bank account one day and was redeposited when the need to cover written checks presented itself. Should we decide to reinstate our sweep programming when the interest rate improves, we will book the activity differently.

COMPLIANCE AND OTHER MATTERS:

The Clerk Overspent Her Approved Budget For Deputies Salaries, including FICA and Retirement By \$23,460

The Clerk overspent her budget for deputies' salaries as approved by the fiscal court by \$12,495, FICA by \$4,223 and retirement by \$6,742, for a total of \$23,460. Under KRS 64.530, the fiscal court has the authority to set an amount the Clerk can spend for deputies salaries and fringe benefits. We recommend the Clerk maintain deputies' salaries within the budget as approved by the fiscal court by obtaining written approval from the fiscal court for any additional salary payments.

County Clerk's Response:

Part 1 – salaries: We acknowledge that we exceeded the budget for salaries because of additional compensation expense required because there were 2 election cycles in 2008. Based upon prior practice, fiscal court does not require us or even permit us to budget additional compensation for funding election cycles, since it can never be known in advance how to quantify that factor. In addition to the election cycle unknowns, there is no way to know in advance who will be hired, fired, or retired in a particular year. Our office relies on part time employees who work varying hours based upon work loads. As much as we may try, it is impossible to determine the precise amount of hours the part time people will work. During our budget process with the Finance Committee, these elements of uncertainty are addressed, and to the best of everybody's ability, a salary budget is established.

OLDHAM COUNTY
JULIE K. BARR, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2008
(Continued)

COMPLIANCE AND OTHER MATTERS: (Continued)

The Clerk Overspent Her Approved Budget For Deputies Salaries, including FICA and Retirement By \$23,460 (Continued)

County Clerk's Response: (Continued)

Part 2 – FICA expense: Some of the difference in FICA expense can be attributed to the underlying inability to determine salaries to which a 7.65% factor can be applied. But there is a much larger issue. All of our health insurance plans are operating under Section 125 of the Internal Revenue Code. Since our health insurance contract is managed by County Government, and since that plan has a March 1 renewal date, it is impossible to forecast with a high degree of accuracy the amount of compensation subject to a 7.65% multiple. We can only use our best effort to forecast a number that is logical and reasonable. In addition, that line item is approved during the budget approval process.

Part 3 – Retirement expense: Our budget year is the Julian calendar, whereas the retirement plan's year is July 1 through June 30. We can quite accurately forecast the retirement expense for the period January 1 through June 30 assuming no employee termination of those subject to retirement as known at budget time. For the period July 1 through December 31, we ask the County's chief financial officer to supply us with a percentage which can be applied against the anticipated salary base for that period. If the percentage supplied by County Government happens to be wrong, or we have unscheduled employee terminations, our projection will be inaccurate. Again, this item is specifically approved by the Finance Committee.

Auditor Reply: We realize many factors can affect a projected budget amount throughout the year; however, the County Clerk should monitor these expenditures during the year and request budget amendments from the Fiscal Court as needed.

